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## THE HISTORY OF THE TRADE DOLLAR

The issuance of the trade dollar by the United States in 1873 (and for several years thereafter) was in the nature of a commercial experiment. Similar experiments had been made in other countries, but the creation of the trade dollar was brought about by a different set of conditions and purposed a different end.

Despite its name, the trade dollar was not a coin in the accepted sense of the word. It was no more a coin than is the medal awarded an inventor, an athlete, or the producer of a patent food. It was no more a coin than a silver paper-cutter is a table knife. This fact, so profoundly misunderstood in the seventies by the public, by members of Congress, and by officials of the Treasury Department, makes the trade dollar and its history curiously interesting. Some account, therefore, of its introduction, its proposed functions, and its final abrogation and withdrawal may not be amiss.

In the autumn of 1872, the late Louis A. Garnett of San Francisco, the present writer's father—then manager of the San Francisco Assaying and Refining Works—laid before Dr. H. R. Linderman, Superintendent of the Philadelphia Mint, and subsequently the first Director of the Mint, under the act of 1873 establishing the Mint Bureau at Washington, the suggestion for the trade dollar.<sup>1</sup> Mr. Garnett gave to Dr. Linderman a memorandum of all the essential facts and technical details as to weight and fineness, which he thought would justify the experiment and insure its success.

The conditions that led to the suggestion were these. Mexico was and had been sending to San Francisco silver dollars in large but varying quantities. These were sold for gold at about 7½ per cent above the technical parity of the London quotations for bar silver, and were exported by our merchants and bankers to China, either as a direct remittance for account of the shipper or as a cover for bills of exchange drawn for Eastern or European account. For example, when the London quotation on fine silver

<sup>1</sup> In addition to promulgating the trade dollar, Mr. Garnett suggested the provisions in the coinage laws for the creation of the Mint Bureau, the repeal of the gold coinage charge, and the law regulating the valuation of foreign coins upon the intrinsic value. He was the author of *The Paris Monetary Conference of 1881 and Bimetallism; Facts and Fallacies Concerning the Doctrine of Protection*, and numerous other monographs on economic subjects and was a member of the Monetary Commission created by the Indianapolis Monetary Conference of 1897.

was  $28\frac{3}{4}$  d. or 63.02 cents per ounce, at which a Mexican dollar of  $377\frac{1}{4}$  grains of fine silver would be worth 49.53 cents, Mexican dollars were actually quoted in the San Francisco market at from 53 to  $53\frac{1}{2}$  cents or more than three cents in excess of the London price for fine silver and equivalent to a premium of  $7\frac{1}{2}$  per cent on the valuation of 49.53 cents, the bullion value of the silver contained in the Mexican dollar. It will be seen that, at this rate, the merchants and bankers of San Francisco were paying a large sum for the privilege of doing business in China with Mexican dollars, thereby making a market for Mexican silver while our own product of that metal was declined and excluded. The Mexican dollar was accepted by the conservative Chinese, and had practically become the money of account of China and Japan in their commerce with foreign nations, to the disadvantage of all other silver coins. It was thought highly important therefore that the trade in silver should be diverted if possible from Mexico to our own sources of supply.

These were the conditions, then, that suggested the promulgation of the trade dollar. In November, 1872, Dr. Linderman, in a report to the Secretary of the Treasury, stated all the facts and employed all the arguments to be found in support of the proposed experiment, in which he adhered strictly to the technical features embodied in the original memorandum submitted to him by Mr. Garnett. This part of the report is as follows:

It is not proposed to make the new coin or disk a legal tender in payment of debts, but simply a stamped ingot with the weight and fineness indicated. Its manufacture can, therefore, in no wise give rise to any complication with our monetary system, and neither in theory or principle differ in any respect from the manufacture of refined bars was authorized by law, except in being uniform in weight and fineness. The proposed coin or disk should weigh 430 grains and contain 378 grains of pure silver, the difference of 42 grains representing the alloy of copper, and the weight and fineness be stamped on the reverse of the coin. . . . In the event of the issue of the proposed coin it will be well to give it a title, as for instance Silver Union, differing from the coins representing our subsidiary and dollar of account.

It will be observed that the suggestion was made to call the new coin the "silver union" and not the "trade dollar." When this proposal was made the supply of Mexican dollars was irregular, unsatisfactory, and frequently embarrassing to commercial transactions, and the high premium they commanded was a severe tax upon our commerce. It was hoped that the new coin, by virtue of

its greater intrinsic value, its superior execution, and its absolute uniformity in both weight and fineness, would commend itself to general use in China and Japan. It was expected to relieve our commerce of a serious tax and to furnish an important outlet for our constantly increasing production of silver; and it might also be expected to lead to our arbitration of no inconsiderable portion of the European exchange with those countries.

The records of the engraving department of the Philadelphia Mint show that a number of tentative designs were made, probably by order of Dr. Linderman, prior to the date of his report recommending the adoption of the coin.

In proposing this new arbiter of exchange, its author took into account the established partiality of the Chinese for the Mexican dollar and their natural repugnance to all innovations. They had rejected some standard dollars, made in our mint in 1859-1860 for an experimental shipment, and had only recently discredited the new Mexican dollar because, though its intrinsic value had in no wise been affected, the devices had been somewhat changed. Mr. Garnett was therefore not without misgivings, but knowing that the proposed coin would be intrinsically about two mills more valuable than the Mexican dollar, more uniform in weight and fineness, and of superior artistic workmanship, his chief reliance was upon the acquisitive instincts of the Chinese and their aptitude for figuring out practical results in the way of trade. As the result proved, he was not mistaken in his calculations.

Though the coinage act, providing for the trade dollar, became a law on February 12, 1873, it was not until July of that year that the coinage of trade dollars was begun. Naturally the demand at first was moderate until it could be ascertained by our merchants and bankers how the new coin would be received in China. Official tests and assays were made by the Chinese government from the first shipment. The results were in the highest degree satisfactory, and were followed by a proclamation declaring the coin a legal tender. In 1877, four years after the introduction of the new coin, our consul at Hong-Kong furnished the Secretary of the Treasury with a report upon the trade dollar, in which he quotes the opinions of the two leading foreign banks in China—the Oriental Bank and the Hong-Kong and Shanghai Banking Corporation—to the following effect:

The United States trade dollar has been well received in China and is eagerly welcomed in these parts of the country when the true value of the coin is known. It is a legal tender at the ports of Foochow and

Canton in China, and also at Saigon and Singapore. Although not legally current in this colony, it is anxiously sought after by the Chinese, and in the bazaars it is seldom to be purchased. In proof of the estimation in which the trade dollar is held in the south of China, we need only state that the bulk of the direct exchange business between San Francisco and Hong-Kong (which is very considerable) is done in this coin, the natives preferring it to the Mexican dollar. Late advices from San Francisco report that so great is the demand for trade dollars for shipment to China, that the California Mint is unequal to the task of turning out the coin fast enough to satisfy requirements. This is, in our estimation, evidence powerful enough to convince the most sceptical as to whether the United States trade dollar has been a success or not. It is the best dollar we have ever seen here, and as there can be no doubt as to the standard of purity being maintained, it will become more popular day by day, and, we doubt not, ultimately find its way into North China where the people are more prejudiced against innovations.

No indorsement could be higher than this. Both of these banks were English corporations and as the English colony of Hong-Kong had but recently attempted to introduce a "metrical" dollar of its own, which had signally failed, it might be naturally expected that the success of the trade dollar was not particularly flattering to English pride, and that the declination to make our dollar a legal tender may have been, to some extent, influenced by chagrin. But according to the authorities here quoted, the natives preferred it to the Mexican dollar, and it circulated notwithstanding the want of official recognition.

Beginning in July, 1873, the coinage of the trade dollar steadily increased until 1878 when it incurred the enmity of the "friends of silver" who had just then restored the old standard dollar with which, it was alleged, this coin conflicted. The coinage of trade dollars for the fiscal years up to that date had been as follows:

1874 .....	\$3,538,900
1875 .....	5,697,500
1876 .....	6,132,050
1877 .....	9,162,900
1878 .....	11,378,010
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Total .....	\$35,959,360

From 1879 to 1884 the Philadelphia Mint continued to coin these dollars in small quantities, aggregating \$6,564, making the total coinage \$35,965,924.

We come now to the causes leading to the abrogation of the trade dollar. In the original suggestion it was considered im-

portant that the proposed disk *should not be made a part of or be in any way confounded with our monetary system*. It was, as has been stated, in no sense to be regarded as a coin or as having *any monetary function for local or domestic purposes*. It was intended to be simply an *adjusted* disk of silver, of uniform weight and fineness, and as a precaution against possible confusion regarding the limited functions of the new disks, it was definitely proposed that they should be stamped with some legend by which they would be known and distinguished from our legal tender coins, such, for example, as "silver union" or "silver arbiter." These discoid ingots of adjusted weight and fineness were to stand on precisely the same footing as the manufactured standard or fine silver bars, the depositor furnishing the silver and paying to the government the full cost of manufacture. Had this fundamental idea been adhered to, all the trouble that ensued would have been avoided.

During the last months of the period of two and a half years that the coinage act of 1873 had been pending in Congress, Mr. John J. Knox, then Deputy Comptroller of the Currency, undertook, at the direction of the Secretary of the Treasury, to formulate an amendment to the pending bill, authorizing the manufacture of the proposed disk. An attempt, however, had been made by some one in the department to alter the specifications and make it a "metrical" coin, in the face of the ill-fated English experiment in Hong-Kong, to which allusion has already been made. It was only by an extended telegraphic correspondence that Mr. Garnett was able to avert this action, which would have been fatal to the success of the proposed coin.

It is necessary to state here that the old silver dollar had been eliminated from the bill before it was presented to Congress, and that it was not at any time restored in any of the numerous reprints of the bill. The reasons for omitting it were given in full in the printed appendix of the original bill as submitted to Congress, as well as in the pamphlet of correspondence with mint and other experts shortly afterward published at the request of the House. The numerous allegations, therefore, which have been made against Senator Sherman, as chairman of the Finance Committee of the Senate, until they have become historical, charging him with the demonetization of silver, are without foundation in truth. What bearing these facts had upon the trade dollar will be hereinafter shown.

While this bill, which afterward became the coinage act of 1873, was still pending, a provision was introduced by Mr. Hooper for the coinage of a silver dollar. This was to have been a subsidiary dollar of 384 grains, and, like the fractional silver coins, was to be a legal tender for only \$5. This proposed dollar was finally stricken out as impracticable by the Finance Committee of the Senate, and the "trade dollar," as it was unfortunately decided to call the new coin, was put in its place.

Now, the last clause in the section (before this substitution was made) provided that the dollar piece, together with the fractional coins indicated, *should be a legal tender for the sum of \$5*. Thus, by the failure, due to a palpable oversight, to alter this clause so as to exempt the trade dollar from its operation, that coin was made a legal tender for \$5, which, as shown by Dr. Linderman's report, quoted above, was never intended by its author.

The circumstance attracted no particular attention at the time, nor when first discovered was it supposed to possess any significance. Even after the trade dollar began to be circulated to a limited extent among the more ignorant classes, the evil was thought to have been remedied when, by the act of July 22, 1876, the legal tender functions of the coin were repealed. But in the mean time the price of silver had broken badly, and the metal had entered upon the downward course from which it has never since recovered. In 1878, Congress restored the old "standard dollar" to its former place in our currency, and its friends, who, by some unaccountable mistake, had connected its demonetization with the substitution of the trade dollar for Mr. Hooper's subsidiary dollar (which, as we have seen, had been quashed in committee) joined in the raid of speculators who had begun collecting and buying up at a discount the trade dollars that had crept into circulation, declaring that the government was bound to redeem them since they had been made a legal tender.

In March, 1887, nearly eleven years after the legal tender functions of the coin had been repealed, and when silver had declined below 98 cents per fine ounce, or 25 per cent discount, Congress passed a bill compelling the government to redeem trade dollars at par in standard dollars, and at the same time repealed the authority for their further coinage.

The government redeemed under this act \$7,689,936. This sum was equivalent to 6,018,921 ounces of fine silver, which, at the average value for the year 1887 (\$0.97,832) was worth

\$5,887,889. In redeeming them, therefore, at par in standard dollars, the government simply gave a bonus of \$1,800,000 to the holders, as the same amount of silver could have been purchased for that much less than the sum disbursed, and converted into standard dollars. It is incredible that these dollars could have been taken by the holders through ignorance in payment of debts; they were, on the contrary, bought up at a discount before the passage of the redemption act, and in anticipation of such a measure. This is substantiated by the fact that up to July, 1876, when the legal tender functions of these coins was repealed, the total coinage had only reached \$15,418,450, of which \$12,580,000 had been exported, leaving only \$2,838,500 in this country, and *no trade dollars came back until 1879, three years later.*

In 1878, when the trade dollar was in use, the ratio of domestic and foreign specie exported was 82 per cent of the former against 18 per cent of the latter, represented by \$13,727,982 and \$3,011,650 respectively. After the suspension of the coinage of the trade dollar, the ratio was inverted and we subsequently exported many millions of dollars in foreign silver coin which might as well have been the American product instead of the Mexican.

It has been asserted that *all* the trade dollars came back to us. The following summary of the coinage and export of these coins, taken from official reports, will best answer such statements.

Total coinage of trade dollars .....	\$35,965,924
Total export of trade dollars .....	29,358,292
Amount retained .....	6,607,632
Trade dollars returned by import .....	2,074,812
Amount stocked .....	8,682,444
Redeemed by U. S. Treasury .....	7,689,036
Unaccounted for (probably used in the arts) .....	993,408

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